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FM AMEMBASSY TBILISI
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6509
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 TBILISI 001284

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DEPT FOR EUR DAS BRYZA AND EUR/CARC

E.O. 12958: DECL: 05/31/2017
TAGS: [PREL](#) [PGOV](#) [ECON](#) [GG](#)
SUBJECT: PM NOGHAIDELI ON ECONOMIC REFORMS, ENERGY
SECURITY, AND RUSSIA

Classified By: Ambassador John F. Tefft for reasons 1.4(b)&(d).

Summary

¶1. (C) In a May 28 meeting with Joseph Wood, Deputy National Security Advisor to the Vice President, Georgian Prime Minister Zurab Noghaideleli said the Georgian economy was performing well, and the government was pushing hard to get major new reforms underway this year so that they would be well-established before the election year of 2008. He expressed concern about possible Russian recognition of the independence of Abkhazia following the resolution of the Kosovo status issue, and said the key for Georgia in its relations with Russia would be major progress on NATO integration in the next twelve months. He encouraged the USG and Europe to engage more actively with Turkmenistan and Kazakhstan, adding that it was particularly important for Georgia that substantial amounts of oil from Kazakhstan flow through the south Caucasus corridor. End Summary.

Not Resting on Economic Laurels

¶2. (C) Wood and the Ambassador began the meeting by asking Noghaideleli about his recovery from recent heart surgery in the U.S. Noghaideleli, who had clearly lost weight since the operation, said he had resumed a full schedule but still suffered pains from the large incisions in his chest. His heart, however, was fine with no residual pain.

¶3. (C) Noghaideleli recounted statistics on Georgia's impressive economic growth, 9.4% in 2006 despite a direct loss of 1.5% of GDP due to Russian economic sanctions. He noted that foreign direct investment was rising rapidly and that Georgia's business environment had improved dramatically according to a World Bank survey last fall. For this year he predicted 12.5% growth, the creation of about 90,000 new jobs (although 25,000-30,000 would likely be filled by foreigners, mainly Turkish construction workers), and inflation below 10%. He said the government was continuing to undertake aggressive reforms, including simplification of the tax system and further improvement of the business climate. He said that he knew of no precedent for the pace of Georgia's health care reform: three months ago all hospitals were state-owned, and two months from now only three would still be in state hands. Noghaideleli said the government's task was to manage reforms while maintaining political support. He noted that there would be elections next year (for both president and parliament) and said the government wanted to complete as many reforms as possible this year in order not to start anything new next year.

Need to Deter Russia

¶4. (C) Noting Russian President Putin's statements that Kosovo should be a precedent for other separatist conflicts,

Noghaideli expressed concern that the Kosovo status process could be developing in a way that would lead to Russian recognition of Abkhazia. He said such a step by Russia would "definitely lead to a confrontation," and it was important to have a "detering policy" against it. Noghaideli added that the key over the next twelve months would likely be NATO integration, and he stressed the need for a strong signal of U.S. support to help win over the older European members of the alliance. He wondered whether Gordon Brown's elevation to Prime Minister would lead to any "surprises" in British foreign policy, adding that Georgia would not like to see a reduction of the British presence in Iraq.

The Politics of Energy

15. (C) Noghaideli said contradictory signals on plans for energy supply routes had been coming out of Central Asia, and he stressed the importance of an active U.S. diplomatic effort in the region, in coordination with Europe. He said that more visits by State and Energy Department officials to Turkmenistan and Kazakhstan would be helpful, as would visits by senior energy company executives from the U.S. He said that while the Russian press was hailing the recent Russia-Kazakhstan-Turkmenistan energy agreement as a triumph for Putin, there was in fact nothing new or concrete in the agreement. He said it was clear in discussions with Turkmenistan's President Berdimuhammedov that he would not permit any foreign company, including a Russian one, into on-shore gas fields, where most of Turkmenistan's gas resources are located. Noghaideli said Berdimuhammedov wanted to pursue a balancing policy, and was looking for a way to reach out to the West. He said Berdimuhammedov responded favorably to Georgian efforts to interest him in the south Caucasus transit corridor. According to Noghaideli, Berdimuhammedov did not want to see Russian

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involvement in the off-shore fields, and was interested in getting a Georgian state company involved there, probably in conjunction with Western partners. Noghaideli reiterated that it would be helpful if the vice-president of a major U.S. energy firm expressed an interest in these fields.

16. (C) Noghaideli said Georgia was particularly interested in oil from Kazakhstan, a country that would be a bigger nominal producer of oil than Russia by 2015. He said Georgia wanted to see a significant amount of this oil transiting the south Caucasus corridor. He said Georgia had not been as successful as it hoped in negotiating market-based mechanisms for use of the corridor -- Azerbaijan and Turkmenistan insisted on governments rather than companies deciding on the exact division of transiting oil -- but he thought there would be diversity because no one route could handle all the volume. He said Georgia was seeking to lower tariffs, especially Azerbaijan's.

17. (U) Joseph Wood did not have the opportunity to clear this message.

TEFFT